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OPEN MEETING AGENDA ITEM



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January 9, 2012

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Re: Tucson Electric Power Company's 2011-2012 Energy Efficiency Implementation Plan and Recommended Order, Docket No. E-01933A-11-0055

Dear Chairman Pierce and Corporation Commissioners:

Opower, a residential behavior-based energy efficiency company, strongly supports the timely approval of Tucson Electric Power's (TEP) 2011-2012 Energy Efficiency Implementation Plan and proposed Authorized Revenue Requirement True-up mechanism ("AART"). Approval of the AART and continuation and launch of TEP's existing and new energy efficiency programs will result in continued energy and bill savings for consumers and long-term certainty for efficiency businesses investing in Arizona. **In Arizona, TEP's Home Energy Report program administered by Opower will save ratepayers an estimated 16 GWh or the equivalent of about \$1.5 million in 2012 and 2013.**

Opower works with over 65 utilities in 24 states, including Arizona, to deliver energy and bill savings to more than 10 million households. This year Opower alone will save enough energy nationally to take 150,000 homes off the grid and save households across the country more than \$100 million on their energy bills. By providing customers with better information on their energy use and personalized energy saving advice, Opower motivates customers to use less energy and save money on their monthly bills. In Arizona, Opower's Home Energy Reports program already reaches 25,000 TEP customers, and all TEP customers will have access to the energy and cost-saving information available through the Opower web portal early in 2012. The program consistently motivates up to 85% of customers to save an average of 2-3% on their energy bills, and has been measured and verified independently by a dozen consultants and economists across multiple geographies.<sup>1</sup> At a cost of \$0.03 – \$0.05 per kWh saved, the Opower program is among the most cost effective programs in the residential energy efficiency market.

**Opower's savings for consumers are only possible in Arizona due to enabling policies, such as the AART, that provide the state's utilities with incentives to help their customers use less energy.** Under typical regulatory structures, utilities have a disincentive to help their customers use less of their product – power – since it leads to reduced revenue and earnings. However,

<sup>1</sup> Allcott, Hunt, September 2011. "Social norms and energy conservation." *Journal of Public Economics*. Section 3.3.1. Available at: [http://opower.com/uploads/library/file/1/allcott\\_2011\\_jpubec - social norms and energy conservation.pdf](http://opower.com/uploads/library/file/1/allcott_2011_jpubec_social_norms_and_energy_conservation.pdf)

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utilities in more than 20 states have proven to be effective at reducing demand for energy when they are properly incentivized.

**If a comprehensive incentive structure is put in place, Lawrence Berkeley National Laboratory projects \$570M in utility bill savings for TEP customers alone from 2011 to 2030 from achieving the Energy Efficiency Standard.** This Arizona-specific report finds significant net benefits for the state's bill payers under various scenarios (with and without decoupling). It furthermore stresses the importance of ensuring cost recovery, reducing the disincentive and providing shareholder incentives in effective utility efficiency business models.

The report states: *"There are three components of a comprehensive EE business model, from the utility perspective: recovery of prudently incurred program costs, collection of lost revenues associated with EE savings (the portion of lost revenues that would be used to recover authorized fixed costs), and the development of a shareholder incentive. If a regulator approves only a subset of the three components, the effectiveness of any component may be undermined."*<sup>2</sup>

**Arizona is not alone in putting in place energy efficiency incentives for investor owned utilities.** Last May the Colorado Public Utility Commission (PUC) reaffirmed its strong commitment to energy efficiency. In addition to increasing its annual savings goal, the CPUC provided Public Service Company (PSCo) the ability to earn a percentage of net economic benefits from energy efficiency programs, program cost recovery, and lost revenue compensation. The company estimates that its electric program alone will result in \$227 million in net economic benefits for customers over the lifetime of energy efficiency measures installed due to its 2010 Demand Side Management (DSM) program.<sup>3</sup>

Opower appreciates the opportunity to offer our perspective on the implications of TEP's AART request on the near terms savings opportunities for Arizona rate-payers and the long-term health of the state's energy efficiency business environment. We look forward to participating in the Open Meeting on Tuesday, January 10<sup>th</sup>.

Respectfully,

Jeff Lyng  
Director of Market Development  
Opower

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<sup>2</sup> *Carrots and sticks: A comprehensive business model for the successful achievement of energy efficiency resource standards.* Lawrence Berkeley National Laboratory, Satchwell et. Al. Utilities Policy 19 (2011), pgs 218-225.

<sup>3</sup> Sciortino, Michael, Seth Nowak, Patti Witte, Dan York, and Martin Kushler. 2011. Energy Efficiency Resource Standards: A Progress Report on State Experience. American Council for an Energy-Efficient Economy. Available at: <http://aceee.org/research-report/u112>